

AR05

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

2055



Consolidated Trans-Canada Resources Ltd.

1988 Annual Report



Corporate Profile

CONSOLIDATED TRANS-CANADA RESOURCES LTD. IS A CANADIAN OIL AND GAS EXPLORATION AND DEVELOPMENT COMPANY OPERATING IN WESTERN CANADA, PRIMARILY IN THE PROVINCE OF ALBERTA.

THE COMPANY WAS FORMERLY ENGAGED IN BOTH OIL AND GAS EXPLORATION AND DEVELOPMENT, AS WELL AS IN SEVERAL RESOURCE SERVICE AND SUPPLY ACTIVITIES. AS A CONSEQUENCE OF THE SEVERE DOWNTURN IN OIL PRICES IN 1986 THE COMPANY UNDERTOOK, DURING 1987, A SIGNIFICANT RESTRUCTURING OF BOTH ITS OPERATIONS AND FINANCES.

TODAY, CONSOLIDATED TRANS-CANADA IS A REVITALIZED, DEBT-FREE, ACTIVE CORPORATION INVOLVED EXCLUSIVELY IN OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION.

Highlights

FINANCIAL

(thousands of dollars, except per share amounts)

	12 Months Ended December 31 1988	12 Months Ended October 31 1988	12 Months Ended October 31 1987
Revenue	\$ 13,638	\$ 13,941	\$ 14,655
Funds from Continuing Operations	\$ 3,925	\$ 4,018	\$ 1,939
Per Common Share	\$ 0.76	\$ 0.83	\$ 1.20
Earnings (Loss)	\$ 797	\$ 573	\$ (12,568)
Per Common Share	\$ 0.15	\$ 0.12	\$ (8.00)
Capital Expenditures	\$ 4,931	\$ 4,586	\$ 1,415
Long Term Debt	\$ 0	\$ 0	\$ 12,698
Shareholders' Equity	\$ 24,909	\$ 24,556	\$ 16,468
Weighted Average Number of Common Shares Outstanding	5,191,195	4,823,538	1,565,022

OPERATING

Production

Crude Oil and Liquids (barrels per day)	1,345	1,221
Natural Gas (thousands of cubic feet per day)	8,895	7,801

Reserves

Crude Oil and Liquids (thousands of barrels)		
Proven	4,536	3,691
Proven and Probable	5,131	8,302
Natural Gas (millions of cubic feet)		
Proven	32,808	31,610
Proven and Probable	35,718	39,660

Land (hectares)

Gross	477,459	423,528
Net	69,877	53,662
Net Undeveloped	25,870	21,328



Report To Our Shareholders

One year ago I reported to you, the shareholders, that "the sole continuing business of the Company is its oil and gas exploration and development operation."

There was, however, one other piece of unfinished business; bank debt was still \$16 million, albeit down from the \$24 million of the previous year. Our drive toward debt reduction continued during fiscal 1988, to the point that I am pleased to present to you a Company completely free of long-term debt at the fiscal period ended December 31, 1988.

I feel this to be a noteworthy achievement and it places the Company in a position to withstand the downturns of our industry and prosper with the upturns.

We are now committed to our prime business, the exploration for and production of, oil and natural gas reserves. During the year we were involved with the drilling of 35 development and six exploratory wells, which resulted in 24 oil wells, four gas wells and two service wells. We have a working interest in 21 of these wells and royalty interests in the remaining nine. Compared with last year, our production of oil and liquids has increased by ten percent and our production of natural gas by 14 percent. Fourth quarter production averaged 1,484 barrels per day of oil and liquids and 10.7 million cubic feet per day of natural gas.

Both cash flow and earnings have increased markedly in 1988, despite the depressed prices that we received for our production. Our strong performance in 1988, relative to 1987, is primarily attributable to the reduced administrative and interest expenses of our restructured Company and to the fact that no further write-downs were required under the full cost ceiling test.

Provided that the degree of stability that has characterized world oil prices in recent months is sustained, I feel that Consolidated Trans-Canada, with its inventory of undeveloped land, the technical capabilities of its staff and its financial strength, will generate appreciable growth in production, cash flow, earnings and its reserve base.

I commend the entire staff for their hard work and dedication which allowed the Company to achieve these significant improvements.

Bruce A. Macdonald
President and
Chief Executive Officer

Operations Review

1988 has been a year for Consolidated Trans-Canada Resources to continue its rebuilding program. With the financial restructuring and operational changes of 1987 behind us, the cash flow from operations was utilized for drilling and acquisition activities to enhance the production and reserves of the Company.

Consolidated Trans-Canada has adopted a regional approach with respect to exploration and development, concentrating activities in southeastern Alberta. Following is a selection of properties on which the Company has conducted activities in 1988 and on which it will continue to work in 1989:

Hayter South

Consolidated Trans-Canada purchased a 50 percent working interest in 448 hectares of land in Township 40, Range 1, W4M. The lands contained one producing Dina oil well. To date, the Company, as operator, has drilled four successful development wells and two exploration wells in three separate pools on the lands. Seismic work is continuing and additional land is being acquired to optimize the exploitation of the pools. A number of additional

development wells will be drilled in 1989. The Company's current share of production is approximately 90 barrels per day.

Bantry

Approximately 1,280 hectares of highly prospective oil lands have been acquired in the Bantry area, in which the Company has a 25 percent working interest. Seismic is currently being gathered to determine the optimal drilling location for a Taber Sand exploration well which is expected to spud in the second quarter of 1989.

Chamberlain

Consolidated Trans-Canada is the operator and 50 percent owner of a successful Basal Quartz oil well drilled in an industrial park between the cities of Edmonton and Sherwood Park. This is an old pool which had been abandoned in the 1950's. Oil production has currently stabilized at 60 barrels per day and a minimum of two development wells will be drilled in early 1989.

DRILLING

Released from the constraints of financial restructuring in 1987, Consolidated Trans-Canada has set about rebuilding its asset base and increasing cash flow. The Company participated in a number of exploratory and

development wells with significant success. Consolidated Trans-Canada also operated a number of wells, thus completing our return to the status of an active oil and gas company.

Summary of 1988 Drilling Activity	Development		Exploration	
	Gross Wells	Net Wells	Gross Wells	Net Wells
Participated in by Consolidated Trans-Canada:				
Oil	17	5.8	—	—
Gas	2	0.6	—	—
Dry	5	2.2	2	0.7
Service	2	0.8	—	—
Drilled at no cost to Consolidated Trans-Canada:				
Oil	6	royalty	1	royalty
Gas	1	royalty	1	royalty
Dry	2	—	2	—
Service	—	—	—	—
Total Wells	35	9.4 + royalty	6	0.7 + royalty

PRODUCTION

With the exception of 1987, when Consolidated Trans-Canada was undergoing its financial restructuring, production of both oil and gas has increased each year for the last ten years. 1988 was no exception, with crude oil and liquids production averaging 1,345 barrels per day, an increase of ten percent over 1987, while natural gas production increased by 14 percent to 8,895 thousand cubic feet per day.

The increases in oil production were attributable primarily to production from new wells at Hayter South, Chamberlain, Sylvan Lake and Conrad. Gas production increases were largely the result of increased rates of take from the majority of our gas contracts.

Average Daily Production and Prices of Crude Oil and Liquids and Natural Gas

	1988*	1987	1986	1985
Crude Oil and Liquids				
Production, in barrels	1,345	1,221	1,314	987
Price received per barrel	\$14.33	\$19.87	\$19.63	\$32.06
Natural Gas				
Production, in thousands of cubic feet	8,895	7,801	8,192	5,243
Price received per thousand cubic feet	\$ 1.31	\$ 1.55	\$ 2.12	\$ 2.39

Average Daily Production by Quarter in 1988*	Crude Oil and Liquids (in barrels)	Natural Gas (in thousands of cubic feet)
First Quarter	1,319	9,583
Second Quarter	1,234	8,672
Third Quarter	1,342	6,661
Fourth Quarter	1,484	10,669

*Information for 1988 is in respect of the year ended December 31, 1988.

LAND

The acquisition of land is essential to the long-term prosperity of an oil company. In 1988, Consolidated Trans-Canada actively increased its inventory of land with purchases and farm-ins which will provide future drilling locations.

Summary of Land Holdings at December 31, 1988 (Hectares)	Developed		Undeveloped	
	Gross	Net	Gross	Net
Alberta	201,355	43,370	123,704	24,408
British Columbia	965	61	805	69
Manitoba	344	69	—	—
Saskatchewan	2,539	507	625	182
	205,203	44,007	125,134	24,659
Arctic	—	—	144,222	1,177
Labrador	—	—	2,900	34
	205,203	44,007	272,256	25,870

The Company also owns a 2 percent gross overriding royalty on an additional 89,652 hectares of Arctic Significant Discovery Lands.

RESERVES

In 1988, Consolidated Trans-Canada installed an in-house reserve data base system to provide greater flexibility and control in, and to reduce the costs of, reserve determinations.

As at December 31, 1988 the Company's crude oil and liquids and natural gas reserves were estimated by the Company. Proven reserves are those considered to be

recoverable at commercial rates under present depletion methods and current operating conditions, prices and costs. Probable reserves are those not substantiated by the analysis of drilling, geological, geophysical and engineering data but where analysis suggests the likelihood of their existence and future commercial recovery.

Reserves of Crude Oil and Liquids and Natural Gas at December 31, 1988

	Oil and Liquids (thousands of barrels)	Gas (millions of cubic feet)
Proven Reserves	4,536	32,808
Probable Reserves	595	2,910
Total Reserves	5,131	35,718

Estimated Present Worth of Reserves

The following table reflects the estimated present worth of Consolidated Trans-Canada's crude oil, natural gas liquids and natural gas reserves at December 31, 1988. The values reflect escalating product price forecasts and are determined before income taxes and after deductions for royalties, operating expenses and future capital costs relating to the properties but exclude Topgas repayments. In forecasting oil and liquids prices the Company has used, as a reference price, the par price for light sweet crude at Edmonton. This price was estimated to be \$19.50 in 1989, and escalated at approximately 11 percent per annum to 1994 and five percent

per annum thereafter. The reference price used for natural gas was \$1.65 per million BTU's in 1989, for gas delivered to Western Gas Marketing, without Topgas deductions. This price was escalated at an average of approximately 15 percent per annum until 1997 and five percent per annum thereafter. Operating expenses and capital costs have been escalated at a rate of five percent per annum.

The actual prices used to determine the worth of the reserves were adjusted from the reference price in accordance with the quality of the crude oil and liquids produced from the Company's respective properties.

Present Worth of Reserves at December 31, 1988

	Present Worth Discounted at			
	0%	10%	15%	20%
	(Thousands)			
Proven Reserves	\$101,109	\$44,830	\$33,903	\$26,830
Probable Reserves	19,096	5,062	3,093	2,031
Total Reserve Value	\$120,205	\$49,892	\$36,996	\$28,861

Financial Review

The highlights of Consolidated Trans-Canada's 1988 year were the significant improvement in cash flow and earnings and the total elimination of long-term debt. The elimination of long-term debt was accomplished from internal resources and the issue of common shares.

In the year ended October 31, 1988, funds from continuing operations have increased to \$4,018,139 from \$1,939,246 for the comparable period in 1987. Earnings have improved even more dramatically between the two periods, from a loss of \$12,568,417 in 1987 to earnings of \$573,035 in 1988.

These increases took place in spite of the lower prices received for oil and gas in 1988, compared to 1987. The impact of the decrease in prices was partially offset by the increase in production, hence revenues were not severely reduced. The improvement in earnings was primarily attributable to the elimination of many of the expenses to which we were subjected during our period

of reorganization in 1987 and also to the Company not suffering a ceiling test write off in 1988.

The Company approaches 1989 with a balance sheet that reflects considerable financial strength which, when coupled with the lines of credit available to it on favourable terms, gives Consolidated Trans-Canada an enviable foundation upon which to base its growth.

The Company has changed its year end to December 31 in order to be consistent with that of its major shareholder. In view of this, the attached financial statements reflect 1988 information pertaining to both the October and December period ends.

Auditors' Report

TO THE SHAREHOLDERS OF CONSOLIDATED TRANS-CANADA RESOURCES LTD.

We have examined the consolidated balance sheet of Consolidated Trans-Canada Resources Ltd. as at December 31, 1988 and October 31, 1988 and the consolidated statements of operations and retained earnings (deficit) and changes in financial position for the two months ended December 31, 1988 and the year ended October 31, 1988. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1988 and October 31, 1988 and the results of its operations and the changes in its financial position for the two month period ended December 31, 1988 and the year ended October 31, 1988 in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 15, 1989

Pricewaterhouse
Chartered Accountants

8

	December 31 1988	October 31 1988	October 31 1987
LIABILITIES			
Current liabilities:			
Bank indebtedness — secured	\$ 0	\$ 0	\$ 532,267
Accounts payable and accrued liabilities	1,930,692	2,924,690	3,364,560
Advances from parent	31,251	10,417	0
Current portion of long-term debt (Note 2)	0	0	3,215,101
	1,961,943	2,935,107	7,111,928
Long-term debt (Note 2):			
Bank loans — secured	0	0	15,898,155
Other secured liabilities	0	0	15,101
	0	0	15,913,256
Less current portion	0	0	(3,215,101)
	0	0	12,698,155
Deferred production income	738,583	804,112	987,694
SHAREHOLDERS' EQUITY (Note 3)			
Share capital:			
Authorized			
Unlimited number of preferred shares			
Unlimited number of Class A common voting shares			
Issued			
6,533,653 common shares (1987 — 4,327,708)	24,556,209	24,556,209	51,830,790
Retained earnings since October 31, 1988	352,964	0	0
Deficit	0	0	(35,362,710)
	24,909,173	24,556,209	16,468,080
Contingent liability (Note 8)			
	\$27,609,699	\$28,295,428	\$37,265,857

Consolidated Statement of Operations and Retained Earnings (Deficit)

	2 Months Ended December 31 1988	12 Months Ended December 31 1988	12 Months Ended October 31 1988	12 Months Ended October 31 1987
	(Unaudited)			
Revenue:				
Oil and gas production revenue	\$ 1,947,063	\$11,621,387	\$11,789,284	\$ 13,104,751
Other revenue	232,272	2,016,973	2,151,677	1,550,793
	2,179,335	13,638,360	13,940,961	14,655,544
Less royalties	(421,593)	(2,556,540)	(2,565,152)	(2,735,520)
	1,757,742	11,081,820	11,375,809	11,920,024
Costs and expenses:				
Production and operating	926,723	5,526,968	5,461,068	5,159,391
General and administrative	266,665	1,548,746	1,499,419	3,142,859
Interest on long-term debt	0	556,717	746,877	2,199,551
Other interest	5,766	49,097	54,696	664,276
Foreign exchange loss (gain)	5,960	24,179	17,033	(154,381)
Depreciation and depletion	600,845	3,902,861	3,946,098	6,172,162
Write-down of oil and gas properties (Note 1b)	0	0	0	9,762,000
	1,805,959	11,608,568	11,725,191	26,945,858
	(48,217)	(526,748)	(349,382)	(15,025,834)
Gain on sale of capital assets	273,730	273,730	0	0
Earnings (loss) from continuing operations before provision for income taxes and extraordinary item	225,513	(253,018)	(349,382)	(15,025,834)
Provision for (recovery of) income taxes:				
Current	(127,451)	(517,012)	(389,561)	(901,931)
Deferred	95,400	95,400	0	(505,760)
	(32,051)	(421,612)	(389,561)	(1,407,691)
Earnings (loss) from continuing operations before extraordinary item	257,564	168,594	40,179	(13,618,143)
Gain on disposal of discontinued service entities (Note 4)	0	532,856	532,856	1,049,726
Earnings (loss) before extraordinary item	257,564	701,450	573,035	(12,568,417)
Extraordinary item:				
Reduction of deferred taxes from the use of prior years losses	95,400	95,400	0	0
Earnings (loss) for the period	352,964	796,850	573,035	(12,568,417)
Deficit at beginning of period	0	(35,233,561)	(35,362,710)	(22,794,293)
Reduction of stated capital (Note 3b)	0	34,789,675	34,789,675	0
Retained earnings (deficit) at end of period	\$ 352,964	\$ 352,964	\$ 0	\$(35,362,710)
Earnings (loss) per common share (Note 3b(i))				
From continuing operations before extraordinary item	\$0.04	\$0.03	\$0.01	\$(8.70)
Before extraordinary item	\$0.04	\$0.14	\$0.12	\$(8.00)
Net earnings (loss)	\$0.05	\$0.15	\$0.12	\$(8.00)

**Consolidated Statement of Changes in Financial Position**

	2 Months Ended December 31 1988	12 Months Ended December 31 1988	12 Months Ended October 31 1988	12 Months Ended October 31 1987
	(Unaudited)			
Cash provided by (used for):				
Operating Activities:				
Earnings (loss) from continuing operations before extraordinary item	\$ 257,564	\$ 168,594	\$ 40,179	\$(13,618,143)
Non-cash items, principally depreciation, depletion and deferred taxes	422,515	3,755,922	3,977,960	15,557,389
Funds from continuing operations	680,079	3,924,516	4,018,139	1,939,246
Funds from discontinued operations	0	532,856	532,856	1,049,726
Decrease (increase) in non-cash working capital (Note 6)	(984,611)	(1,372,272)	2,314,467	1,638,792
	(304,532)	3,085,100	6,865,462	4,627,764
Investing Activities:				
Oil and gas properties	(227,763)	(3,704,488)	(3,611,959)	(993,956)
Property, plant and equipment	(265,097)	(1,226,414)	(974,777)	(421,308)
Government incentive grants	18,335	694,681	678,400	49,217
Sale of capital assets	348,782	589,416	308,038	561,180
Other assets	46,662	646,425	524,551	(975,849)
	(79,081)	(3,000,380)	(3,075,747)	(1,780,716)
Financing Activities:				
Reduction in long-term debt	0	(6,523,155)	(12,698,155)	(7,546,852)
Issues (net) of common shares	0	7,515,094	7,515,094	12,777,409
Deferred income	(65,529)	(220,958)	(183,582)	(93,719)
	(65,529)	770,981	(5,366,643)	5,136,838
Increase (decrease) in cash	(449,142)	855,701	(1,576,928)	7,983,886
Cash position at beginning of period	823,837	(481,006)	2,400,765	(5,583,121)
Cash position at end of period	\$ 374,695	\$ 374,695	\$ 823,837	\$ 2,400,765
Funds provided by continuing operations per common share	\$0.10	\$0.76	\$0.83	\$1.20

Notes to Consolidated Financial Statements

December 31, 1988 and October 31, 1988

1. Accounting Policies

The following accounting principles and practices are set forth to facilitate the understanding of data presented in the financial statements:

(a) Consolidation

The consolidated financial statements include the accounts of Consolidated Trans-Canada Resources Ltd. and its subsidiaries (the Company), all of which are wholly-owned. Effective October 31, 1988, Camel Oil & Gas Ltd. amalgamated with Consolidated Trans-Canada Resources Ltd.

(b) Capital assets

The Company follows the full cost method of accounting under which all costs related to the exploration for and development of petroleum and natural gas properties are capitalized and accumulated in separate cost centres for Canada and the United States. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges of non-producing wells, and overhead charges directly related to exploration and development activities. Grants and incentive payments reduce the capitalized costs.

The costs related to each cost centre, including costs of production equipment, are depleted and depreciated on the unit of production method based on the estimated gross proven reserves of each country as determined by the Company. The Company has adopted an energy-equivalent basis for converting gas into equivalent units of oil, to more fully comply with the full cost accounting guideline.

The capitalized costs less accumulated depletion and depreciation in each cost centre are limited to an amount ("the ceiling test amount") equal to the undiscounted and unescalated estimated future net revenues from proven reserves plus the lower of cost or estimated fair value of unproved properties. The total amount of capitalized costs less accumulated depletion and depreciation and deferred income taxes for the consolidated Company is limited to an amount equal to the estimated undiscounted and unescalated future net revenue from proven reserves plus the lower of cost or fair market value of unproved properties less estimated future general and administrative expenses, financing costs and income taxes.

The Company has used the par price for light sweet crude at Edmonton as a reference in determining the estimated future oil revenue from its respective properties. This par price was \$118 per cubic metre (\$18.76 per barrel) on December 31, 1988 and \$99 per cubic metre (\$15.74 per barrel) on October 31, 1988. In determining the estimated future revenue from gas the Company has used the prices at which it has contracted to sell gas for the forthcoming year.

The application of the ceiling test as at December 31, 1988 did not result in any charge in respect thereof; however, as a result of the depressed oil price at October 31, 1988, the application of the ceiling test at that time would have resulted in an additional charge to depletion and depreciation of \$2,100,000. This charge was not recorded at October 31, 1988, as prices improved markedly thereafter and stabilized at the improved level through December 31, 1988.

Sales of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized, unless such adjustments would significantly alter the rate of depletion and depreciation on a country by country basis. In November 1988, the Company sold the majority of its oil and gas assets in the United States resulting in a gain on disposition of \$273,730.

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

During the two months ended December 31, 1988 overhead expenses of \$15,000 (October 31, 1988 — \$90,000; 1987 — \$120,000) directly related to exploration and development were capitalized in accordance with the accounting policies of the Company.

The cost of other equipment is depreciated on the declining balance method at the rate of 20% per annum.

(c) **Change of year end**

Effective December 31, 1988 the Company has changed its year end from October 31 to December 31.

(d) **Earnings per share**

Earnings per share are based on the weighted average number of shares outstanding during the period.

(e) **Comparative figures**

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 1988.

2. Long-Term Debt

At December 31, 1988 and October 31, 1988 the Company has no bank indebtedness; it does, however, have credit facilities with two banks.

The Company's principal bank has provided a credit facility to a maximum amount of \$10,000,000. Any indebtedness arising under this facility would be secured by certain oil and gas properties, a general assignment of book debts and a \$15,000,000 floating and fixed charge debenture. Such indebtedness would be on a revolving demand loan basis without specific repayment terms, but subject to review in February 1990 to determine the basis on which the facility would remain in place.

A second bank has provided a credit facility of a maximum of \$1,000,000. Terms of this facility are similar to those of the principal bank, with the exception that the review date of the facility is March 1989.

3. Shareholders' Equity

- (a) Details of share capital transactions during the period from November 1, 1986 to December 31, 1988 are as follows:

	Number of Shares	Consideration
Balance, October 31, 1986	1,412,332	\$ 23,648,878
Issued as management fees, net of purchases and cancellations	11,055	82,500
Issued to creditors in terms of C.C.A.A. plan of arrangement	549,321	4,119,909
Issued on conversion of preferred shares in terms of C.C.A.A. plan of arrangement	640,000	15,404,503
Issued on exercise of options by parent corporation under C.C.A.A. plan of arrangement	1,715,000	8,575,000
Balance, October 31, 1987	4,327,708	51,830,790
Issued on exercise of options by parent corporation under C.C.A.A. plan of arrangement	45,000	225,000
Purchases and cancellations	(2,260)	(17,323)
Issued on rights offering	2,186,355	7,402,240
Cancellations arising from "small shareholder" plan of arrangement	(23,150)	(94,823)
Reduction of stated capital	—	(34,789,675)
Balance, December 31, 1988 and October 31, 1988	6,533,653	\$ 24,556,209

- (b) As a result of a special meeting of shareholders held in September 1988, the Company made the following changes to shareholders' equity:

- (i) The Class A Common Voting Shares were consolidated on the basis of 10 existing shares for one new share. All references in these financial statements to Common Share capital and to per share data for 1988 and 1987 have been restated to reflect the effect of the share consolidation.
- (ii) Each Class A Common Voting Share registered in the name of a shareholder ("small shareholder") who would have received less than 25 consolidated shares as a result of the share consolidation was, unless such holder elected to the contrary, automatically exchanged for \$3.50 per share.
- (iii) The stated capital for the Class A Common Voting Shares was reduced, by October 31, 1988, in the amount of \$34,789,675. This reduction resulted in the elimination of the Company's deficit and a corresponding reduction in the amount of the outstanding share capital.

- (c) During the period November 1, 1987 to December 31, 1988 the following changes took place with respect to options to purchase Class A Common Voting Shares of the Corporation:

- (i) Pursuant to the terms of the Company's financial restructuring in 1987, Total Energold Corporation, the Company's major shareholder, held certain options to acquire Common Shares of the Company. The unutilized portion of these options expired by October 31, 1988.
- (ii) On November 30, 1988 employees were granted options to purchase a total of 64,500 shares at a price of \$2.25 per share.
- (iii) Options on 7,000 shares at \$4.00 per share expired.
- (iv) On March 8, 1988 options on 4,000 shares at \$6.40 per share granted on August 4, 1987 and 10,000 shares at \$3.50 per share granted on November 24, 1987 were cancelled and reissued as 4,000 shares at \$6.40 and 10,000 shares at \$3.60.

As at December 31, 1988 the following options were outstanding with respect to Class A Common Voting Shares of the Corporation:

Grant Date	Exercise Price	Number of Shares Outstanding Under Options
August 4, 1987	\$6.40	44,800 (i)
November 24, 1987	\$3.50	50,000 (i)
December 8, 1987	\$4.00	45,000 (i)
March 8, 1988	\$6.40	4,000 (i)
March 8, 1988	\$3.60	10,000 (i)
November 30, 1988	\$2.25	64,500 (ii)

The options denoted (i) above have been granted for a period not exceeding five years and may be exercised to the extent of 25% per year of the total options granted from the date one year after the date of granting. Options not exercised in a year may be exercised in subsequent years during the term of the option.

The options denoted (ii) above have been granted for a period not exceeding four years and may be exercised to the extent of 33-1/3% of the total options granted in each of the first three years after granting. Options not exercised in a year may be exercised in subsequent years during the term of the option.

4. Discontinued Operations

The following items comprise the transactions in respect of discontinued operations:

Distribution dividend from the trustee in bankruptcy of Dobrocky Seatech Ltd., formerly a wholly-owned subsidiary of the Company	\$320,712
Reversal of accruals for warehouse leases which were assumed by the purchaser of one of the service entities	212,144
	<u>\$532,856</u>

This amount is subject to a deferred tax charge of approximately \$260,000; however, this charge has been eliminated by the utilization of prior years losses.

5. Income Taxes

- (a) The income tax provisions in relation to the continuing operations of the Company have varied from the Canadian corporate tax rate for the following reasons:

	2 months Ended December 31 1988	12 months Ended December 31 1988	12 months Ended October 31 1988	12 months Ended October 31 1987
	(Unaudited) (Thousands of Dollars)			
Provision for income taxes based on applying a normal rate of 50%	\$ 113	\$(126)	\$(175)	\$(7,513)
Add (deduct) tax effect of:				
Crown charges disallowed for tax purposes	102	660	668	675
Petroleum and natural gas taxes	0	0	0	(506)
Resource profits rate reductions	(83)	(650)	(671)	(282)
Provincial resource industry rebates	(127)	(517)	(390)	(902)
Benefit of losses not recognized	0	223	148	7,120
Other	(37)	(12)	30	0
	<u>\$ (32)</u>	<u>\$(422)</u>	<u>\$(390)</u>	<u>\$(1,408)</u>

(b) In prior years the Company significantly reduced the carrying value of its oil and gas capital assets. At December 31, 1988 the Company has tax pools which exceed the related book value of assets by approximately \$39,000,000. This benefit has not been recorded due to a lack of reasonable assurance of realizing the tax benefit. Extraordinary income will be recorded in future periods as the benefits are realized.

6. Analysis of Changes in Non-Cash Working Capital

	2 Months Ended December 31 1988	12 Months Ended December 31 1988	12 Months Ended October 31 1988	12 Months Ended October 31 1987
	(Unaudited)			
(Increase) decrease in accounts receivable . . .	\$ 100,664	\$ 506,259	\$ 5,927,055	\$(4,519,083)
(Increase) decrease in income taxes recoverable	(90,566)	(19,205)	71,361	(27,669)
Decrease in accounts payable	(993,998)	(1,046,939)	(439,870)	(4,606,493)
	(983,900)	(559,885)	5,558,546	(9,153,245)
(Increase) decrease in other current assets:				
Estimated net realizable value of assets				
held for resale	0	0	0	7,850,000
Prepaid and other	(21,545)	611,463	(39,395)	25,514
	(21,545)	611,463	(39,395)	7,875,514
Increase (decrease) in other current liabilities:				
Current portion of long-term debt	0	(1,455,101)	(3,215,101)	2,916,523
Advances from parent	20,834	31,251	10,417	0
(Increase) decrease in non-cash working capital	\$(984,611)	\$(1,372,272)	\$ 2,314,467	\$ 1,638,792

7. Related Party Transactions

The Company is a subsidiary of Total Energold Corporation which, at December 31, 1988, held approximately 63% of the Company's outstanding Common Shares.

Pursuant to the Common Share rights offering dated June 14, 1988, Total Energold purchased 1,845,740 common shares for consideration of \$6,460,000. Total Energold also converted debt into Common Shares of the Company in accordance with the terms of its option described in Note 3.

The Company has entered into an agreement whereby, for a fee of \$125,000 per annum, Total Energold will supply to the Company representatives in advisory capacities or as officers and provide expertise to assist the Company in its operations. Certain expertise will be provided at a cost in addition to the annual fee.

8. Contingent Liability

A lawsuit has been initiated against one of the Company's U.S. subsidiaries and certain other parties seeking damages of approximately (U.S.) \$990,000, plus interest and attorney's fees. The subsidiary had no assets at December 31, 1988, and no claim has been asserted against the parent. While the ultimate outcome of this lawsuit is presently not determinable, management has been advised by its legal counsel, and is of the opinion, that there are substantial arguments supporting its defence of the lawsuit.

Corporate Directory

Directors

Herbert C. Andreae†
Financial Consultant
London, England

James H. Coleman
Partner
Macleod Dixon
Calgary, Alberta

A. Phillip de Boos-Smith*
Chairman
Total Energold Corporation
Vancouver, British Columbia

Jean-Pierre Januard
President and
Chief Executive Officer
Total Energold Corporation
Vancouver, British Columbia

Chaque Le Chevalier†
Chairman
Ranchmen's Resources Ltd.
Calgary, Alberta

Bruce A. Macdonald
President and
Chief Executive Officer
Consolidated Trans-Canada
Resources Ltd.
Calgary, Alberta

Herbert E. McClenaghan*
Financial Consultant
Calgary, Alberta

William J. Sullivan*
Partner
Guild, Yule, Lane, Sullivan,
MacKenzie & Holmes
Vancouver, British Columbia

*Members of the Audit Committee

†Members of the Compensation Committee

Officers

Bruce A. Macdonald
President and
Chief Executive Officer

Peter H. Ryder
Vice-President, Finance

Rodney K. Spence
Vice-President, Operations

John D. Fitzgerald
Corporate Secretary

Victoria E. Sharp
Assistant Corporate Secretary

Corporate Information

Incorporation

December 15, 1966
Province of British Columbia
October 5, 1982
Continued as an Alberta
Corporation
May 1, 1984
An amalgamated Alberta
Corporation

Head Office

#350, 708 - 11th Avenue S.W.
Calgary, Alberta T2R 0E4

Registrar and Transfer Agents

National Trust Company
Calgary, Vancouver, Toronto
and Montreal

Bankers

Royal Bank of Canada
Calgary, Alberta

Bank of Montreal
Calgary, Alberta

Auditors

Price Waterhouse
Calgary, Alberta

Legal Counsel

Macleod Dixon
Calgary, Alberta

Stock Listing

Alberta Stock Exchange

